



## FACING THE CHALLENGES OF GLOBAL UNCERTAINTY

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The financial crisis which triggered the global recession was not caused by bad bankers, bad financial instruments or bad financial jurisdictions. True, it appears that some bankers cheated, and some regulators may have dropped the ball, but even if they hadn't, the financial system would still have fallen into crisis.



*Prof. Avinash Persaud  
Member of the UN Special  
Committee on the Global*

That was the assertion with which Professor Avinash Persaud opened the CCMF seminar "Strategies to cope with global uncertainty – choices for Caribbean business and finance", held at the Jamaica Conference Centre in Kingston, on September 4, 2009. Professor Persaud pointed to the basic flaw in the Basel Accords by which banks are regulated internationally: they use market prices to value the capital which is the banks' last line of defense. When markets fail, as they

did when banks stopped lending among themselves eighteen months ago, much of the value of capital evaporates. The way to avoid a repeat of the crisis is to match the risks that financial institutions take to their capacity to bear risk. For example, institutions that have short term obligations should lend at short term, leaving those with long term commitments to lend at long term.

Mr. Philippe Carrel joined Professor Persaud in criticising the Basel Accords for adding together the risks of loan default, fraud, a decline in share prices, a devaluation, etc. This one size fits all approach impedes specific action that needs to be taken in each case. Instead he advocates that all credit risks should be added, wherever they arise in the financial conglomerate, and that the same be done for all operational risk, market risk, etc.

Dr Arnold McIntyre of the IMF's Western Hemisphere Department outlined reforms which the IMF has recently undertaken in response to the crisis. They include an increased allocation of Special Drawing Rights (SDRs) to each member country of the IMF, a move which adds to the foreign exchange reserves of all member countries. The IMF has also

overhauled its concessionary facilities for the poorest countries, introduced a new flexible credit line and high access precautionary arrangements, and modernised the conditions attached to the use of existing lending facilities. An important change for Caribbean countries is that IMF borrowing may now be used to finance government expenditures, something which the Fund expressly forbade before the change in policy.

Dr Badrul Haque summarised World Bank facilities for which Caribbean countries might be eligible. The Bank has fast tracked US\$2 billion of funding via its subsidiary International Development Association, directed towards the poorest countries, including Haiti, Guyana and four OECS countries. World Bank lending has trebled to US\$100 billion, including funding for well thought out development policy. In addition, another Bank subsidiary, the International Finance Corporation, has introduced new facilities for trade financing, for sustaining investment in infrastructure, to assist in the recapitalisation of banks, to help fund loan restructuring, and to refinance micro-enterprises.

Mr. Eric-Vincent Guichard confronted the attendees with the reality that the Caribbean needed large conglomerates, that were inevitably "too big to fail", in the successful pursuit of global competitiveness. He offered examples drawn from Michael Porter's *The Competitive Advantage of Nations* of Swiss and Japanese conglomerates which had led a successful thrust for international competitiveness in industries such as watch making and heavy industry. Such conglomerates need to be supported, but they must not be allowed to run amok. In exchange for accommodative policies they should be held publicly accountable and their operations should be transparent.

Mr. Suresh Sookoo of RBTT Financial pointed out that although Caribbean banks did make some losses because of falling share prices, they were not seriously affected by the international financial crisis because they had not followed international banks into the market for derivatives and secondary instruments. Most bank assets in the Caribbean remain loans that they have themselves underwritten, and securities holdings were limited to some secondary mortgage paper. The main impact on the banks has been via the contraction in the real economies of the Caribbean, which has resulted in a noticeable

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increase in nonperforming loans.

Mr. Mark Linehan reported that Digicel had raised US\$510 million on securities markets in 2009 in spite of the economic downturn. The downturn had had its impact on the growth of the company's core cellphone business, but it was seeking to reduce costs, including by the use of electronic recharging of cellphones. Digicel was also looking to the future, and the possibility of making wireless broadband freely available in major urban centres.

### REGIONAL NEWS SUMMARY

#### CL FINANCIAL

- Rum producer Angostura Ltd is now without a chief executive officer. (TE 27 Aug)
- LIAT has withdrawn its pension funds from CLICO.
- General Manager of British American Insurance Company Limited in St Kitts, has been requested to refrain from effecting any policy because of the company's dire financial position. (Cnn 4 Sep)
- The IMF has urged Barbados to be "quick and decisive" in resolving the problem with CLICO Barbados. (BN 15 Sep)
- The Cayman Islands Monetary Authority appointed controllers to manage the affairs of British American Insurance Company Limited's Cayman Islands operations. (Cnn 16 Sep)
- Guyana has received US\$15 million from the regional emergency fund managed by Trinidad and Tobago to help pay the roughly 15,000 policyholders of Colonial Life Insurance Co. in Guyana. (JG 23 Sep)

#### THE STANFORD GROUP

- James Davis, the former CFO of Stanford Financial Group has admitted he and his co-conspirators defrauded investors who bought about seven billion dollars in certificates of deposit administered by the Antigua-based Stanford International Bank. The scam dated back to 1990 when he and his co-conspirators began making false entries into the bank's ledgers about its revenues and revenue balances. (Cnn 28 Aug)
- Antigua and Barbuda has appointed an experienced banker to head the nation's financial regulatory body. (Cnn 2 Sep)
- R. Allen Stanford, will be defended by some of Houston's most talented lawyers at taxpayer expense. (Cnn 23 Sep)

#### OTHER NEWS

- The Caribbean and Latin America are going from recession to depression, according to UNECLAC, which predicts exports and imports of Latin America for 2008-2009 would fall by 30 per cent. (BN 28 Aug)
- Ocean Park Marine Aquarium has closed its doors due to spiralling operating costs. 30 workers have been affected by the closure. (BN 1 Sep)
- The shares of Sagicor Financial Corporation will no longer be traded on the Jamaica Stock Exchange. (BN 7 Sep)

- Unemployment in Barbados has fallen to 9.9%. At the end of March 2009 it was 10.1%. (BN 14 Sep)
- Valero Energy Corp. said its Aruba refinery, the third largest in the Caribbean, will be closed indefinitely and most of the 1000 contract workers fired. (Cnn 27 Aug)
- The Netherlands Antilles and Mexico have signed a tax agreement which spells out a framework under which both nations will exchange information on tax matters in order to prevent tax fraud, financing of terrorism and money laundering. (Cnn 2 Sep)
- The European Union on 1st Sept granted Jamaica J\$3.6 billion under the European Commission co-operation programme. (Cnn 3 Sep)
- Jamaica's St Ann Bauxite Partners Ltd plans to return to nearly full production within three months; the company now operates at 64 percent of capacity, producing 3 million tonnes of bauxite annually at its mine on Jamaica's north-east coast. (Cnn 4 Sep)
- Trinidad and Tobago's economy will recover next year and is forecast to grow 2 percent in 2010 after a projected contraction of 0.9 percent this year, Finance Minister Karen Nunez-Tesheira said while presenting the 2010 budget to Parliament. (Cnn 9 Sep)
- All 320 staff who were employed at Rose Hall Beach Hotel One would be made redundant as a result of the worldwide economic challenges affecting this operation. (JG 28 Aug)
- An investigation is now under way at Jamaica's First Global Bank after the discovery of trading irregularities at the institution that have resulted in predicted bond-trading losses of approximately US\$19 million (J\$1.68 billion). Four senior employees have been dismissed. (JG 1 Sep)
- It is estimated that up to 30,000 Jamaicans have lost their jobs since the global crisis unleashed its effects over a year ago. (JG 9 Sep)
- The Caribbean is lagging behind the rest of the world in reforming private sector regulation, causing the region to drop in the World Bank's annual ease of doing business survey. (JG 11 Sep)
- In its fourth reduction in less than six weeks, Jamaica's central bank clipped one percentage point from its benchmark interest rates, bringing its six-month certificates of deposit to 17 per cent. (JG 18 Sep)
- 55 workers have lost jobs at Kingston Wharves since last October, and 100 have been sent home from the Kingston Container Terminal since January this year. (JG 21 Sep)
- The Government has tacked on just over J\$6 billion to its spending plans for the fiscal year despite repeated pronouncements from Prime Minister Bruce Golding that a major shortfall in revenue would lead to a sharp cut in the Budget. (JG 23 Sep)
- The Bank of Jamaica will be issuing a high-security \$5,000 banknote on September 24. (JG 1 & Sep)

## REGIONAL NEWS SUMMARY cont'd

- A survey by the local private sector has revealed that the Guyana economy is holding its own in the current global economic and financial crisis and that businesses outside the manufacturing sector have been minimally impacted. (SN 4 Sep)
- Economist Jwala Rambaran said the T&T government is denying the country is in a recession, thus delaying the hard decisions needed to turn the economy around. (TG 10 Sep)
- Central Bank Governor Ewart Williams made a strong case for making business education a more integral part of the country's high school curriculum. (TG 22 Sep)
- The Central Bank of Trinidad and Tobago announced on August 28 that headline inflation fell to 5.9 percent July, from 8.4 per cent in June. (TE 7 Sep)
- International ratings agency Standard & Poor's lifted a negative credit watch rating from Trinidad and Tobago that stemmed from Government's initial \$1.5 billion rescue of CL Financial companies. (TE 15 Sep)
- Trinidad and Tobago Government total revenues for this year (October 2008 to September 2009) are projected to decline by \$18.9 billion or 38.8 per cent; total public debt and debt servicing are projected to increase. (TE 16 Sep)

COUNTRY	RESERVES (US\$M) AS AT		% INCREASE IN RESERVES FROM NEW ALLO. OF SDR
	DATE	RESERVES	
Antigua and Barbuda	May-09	100.892	7.83
Bahamas	May-09	718.453	10.05
Barbados	Jul-09	929.1	3.83
Belize	Jun-09	202.397	5.59
Dominica	Jul-09	57.636	7.95
Grenada	May-09	91.935	7.04
Guyana	May-09	381.023	12.04
Haiti	Jun-09	540.134	7.59
Jamaica	May-09	1612.75	8.66
St. Kitts & Nevis	May-09	171.119	3.14
St. Lucia	May-09	165.763	5.27
St. Vincent and the Grenadines	May-09	98.039	4.87
Suriname	May-09	675.332	7.52
Trinidad and Tobago	Jul-09	8954	1.94
<b>Source: IMF and CCMF</b>			

### A SUMMARY OF TRINIDAD AND TOBAGO BUDGET 2009/2010

The Trinidad and Tobago 2009/2010 budget was presented against the background of continued weakness in the global economy and a significant deterioration in the fiscal position of the government as revealed by the projected budget deficit of TT\$7.5 billion for fiscal year 2008/2009. This was driven in large part by a significant reduction in revenues as the price of commodities such as oil, gas and petrochemicals collapsed. Commodity prices have improved somewhat since the end of 2008 but importantly, the price of natural gas has remained depressed. Based on the assumption that demand is expected to gradually rebound in 2010, the fiscal strategy of the Government outlined in budget 2009/2010 is to continue to provide a fiscal stimulus to spur growth by running a deficit of approximately TT\$7.7 billion (or 5.3% of GDP) based on expected revenues and expenditures of TT\$36.6 billion and TT\$44.3 billion respectively. This is predicated on an oil price of US\$55 per barrel of oil and US\$2.75 per mmbtu of natural gas.

The budget contains some relatively minor revenue measures such as increased traffic fines, increased fees for vehicle transfer and increased taxes on tobacco and alcohol, as well as more significant measures such as the property tax reform which is expected to significantly increase the revenue from property taxes. There were some improvements in tax incentives for businesses in the form of increased initial allowances from 75% to 90% of the cost of plant and machinery for manufacturing companies, an increase in the mobilization fee paid to small contractors to assist them in the initial purchase of materials and services from 10% to 30% of the value of the contract and the re-introduction of the approved property development allowances. Expenditure levels and patterns are projected to remain broadly similar to levels in the previous year's revised budget with relatively small declines in subventions for works and transport and national security counterbalanced by small increases in education and health.

### NEW CCMF RESEARCH ASSOCIATE



#### \* DR JENIFER DALEY

Dr Jenifer Daley is a Senior Lecturer in Law, Accounting and Finance in the Department of Management Studies of the University of the West Indies, Mona, Jamaica. She is the author of *Examining bank failure in developing countries: Lessons from Jamaica*, Kingston: Sir Arthur Lewis Institute for Social and Economic Studies (SALISES), UWI, 2007, and of articles on financial sector stability and accounting issues in the financial sector. She has held visiting fellowships to the Univer-

sity of Akron, Ohio, USA and Cardiff University, Wales, UK. Dr Daley is a qualified accountant, and a Fellow of the Association of Chartered Certified Accountants (ACCA) and Fellow of the Institute of Chartered Accountants of Jamaica (ICAJ). She is a graduate of the University of the West Indies, Mona (B.Sc. Accounting, 1988; MSc Accounting 1992) and received her Ph D from Cardiff University. Dr Daley has experience as a senior economist with the Bank of Jamaica, and as finance manager in the commercial banking sector.

Dr. Daley's passionate personal interests are youth development and sharing the gospel of salvation through Jesus Christ.



## ANNOUNCEMENTS ....

### AN UPDATED, COMPREHENSIVE DOCUMENTATION OF THE POST-INDEPENDENCE FINANCIAL HISTORY OF THE CARIBBEAN COUNTRIES

A second edition of the book *The Financial Evolution of the Caribbean Community* is in preparation by the CCMF, to cover the years 1996-2008. The first edited by L. Clarke and D. Darns, and published by the Centre in 1997, covers the period 1970-1996. It is available in electronic format at [www.ccmf-uwf.org](http://www.ccmf-uwf.org). Chapters from the second edition edited by Ramesh Ramsaran, are being made available online as they are completed. Three have now been posted. The Jamaican chapter chronicles the financial liberalisation, financial sector crisis and financial consolidation of the 1990s.

The first decade of the 2000s marked a new era of consolidation, mergers and closures and also a re-emergence of foreign bank dominance. The Belize chapter notes a significant increase in deposit liabilities to GDP, with the entrance of one new domestic commercial bank and the establishment of ten international banks and a mutual fund. Guyana's financial system consists of a modest number of financial institutions and markets, and the banking system is the largest component of the financial system accounting for about 78 percent of its total assets.

#### *CARIBBEAN BUSINESS EXECUTIVE SEMINAR 2010*

##### **"THE FUTURE OF THE FINANCIAL SERVICES INDUSTRY AFTER THE CRISIS"**

*A seminar for CEOs and senior executives of the private and public sectors in the Caribbean*

Hosted by the Caribbean Centre for Money and Finance  
Friday, April 30, 2010

For more information please contact:  
CCMF at (868) 645-1174/1610; email us at [ccmf@sta.uwi.edu](mailto:ccmf@sta.uwi.edu) or visit our website at <http://www.ccmf-uwf.org>

#### **41<sup>ST</sup> ANNUAL MONETARY STUDIES CONFERENCE** **"Building Financial Sector Resilience in the Caribbean "**

November 10<sup>th</sup>-13<sup>th</sup> 2009

Georgetown, Guyana

Sub-themes :

- Financial Contagion
- Financial Integration
- Financial Volatility
- Countercyclical Fiscal Policy
- Debt and Fiscal Sustainability
- The Cost of Financial Rescue Package
- Economic Uncertainty and Economic Planning
- The Future of Commercial Banking
- Financial Sector Stability
- Foreign Exchange Markets
- Financial Development and Related Issues
- Financial Risk Management

For further information please write to [ccmf@sta.uwi.edu](mailto:ccmf@sta.uwi.edu), [Kathleen.Charles@sta.uwi.edu](mailto:Kathleen.Charles@sta.uwi.edu) or [deputygovernor@bankofguyana.org.gy](mailto:deputygovernor@bankofguyana.org.gy); or visit our conference website at <http://amsc.ccmf-uwf.org/>

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